



Single Audit Report  
September 30, 2015





**CITY OF GALVESTON, TEXAS**  
**STATE SINGLE AUDIT REPORT**  
**Year Ended September 30, 2015**

# **CITY OF GALVESTON, TEXAS**

## **STATE SINGLE AUDIT REPORT**

**Year Ended September 30, 2015**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Galveston, Texas, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 25, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 15-01.

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Whitley Penn LLP*

Houston Texas  
March 25, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE AWARDS REQUIRED BY OMB A-133 AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS CHAPTER IV TEXAS STATE SINGLE AUDIT CIRCULAR**

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

***Report on Compliance for Each Major State Program***

We have audited City of Galveston, Texas' (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular* that could have a direct and material effect on each of the City's major state program for the year ended September 30, 2015. The City's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; The provisions of OMB circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the provisions of the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

***Opinion on Each Major State Program***

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major state program for the year ended September 30, 2015.

***Report on Internal Control over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a program that is less than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.



To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

***Report on Schedule of Expenditures of State Awards required by OMB A-133 and the State of Texas  
Uniform Grant Management Standards Chapter IV Texas State Single Audit Circular***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Whitley Penn LLP*

Houston Texas  
March 25, 2016



**CITY OF GALVESTON, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year Ended September 30, 2015**

**I. - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal Control over financial reporting:

• Material weakness(es) identified? No

• Significant deficiencies identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

*State Awards*

Internal control over major programs:

• Material weakness(es) identified? No

• Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? None

Identification of Major Programs:

<u><b>Name of State Program or Cluster</b></u>	<u><b>Grant Number</b></u>
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<b>Texas Department of Transportation</b> Public Transportation – State Funds	51512F7021
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Dollar threshold used to distinguish between type A and type B State programs: \$300,000

Auditee qualified as low-risk auditee? Yes

**CITY OF GALVESTON, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*continued*)**

**Year Ended September 30, 2015**

**II. - Financial Statement Findings**

**Finding #15-01: Fixed Asset Reporting**

**Criteria:** Governmental Accounting Standards Board No. 34: *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, requires the reporting of capital assets.

**Condition:** During our audit of the construction in progress amounts it was discovered that certain projects that were substantially complete as of the end of the fiscal year under audit were left in construction in progress and not properly moved to capital asset category subject to depreciation.

**Cause:** Communication breakdown between the public works departments and the finance department as to the status of projects ongoing.

**Effect:** Without this communication projects that were substantially complete and should have been moved to a capital asset category subject to depreciation were kept in construction in progress instead.

**Recommendation:** The City to set up routine status update reporting between the public works and the finance department to help keep track of the status of ongoing projects.

**III. - State Award Findings and Questioned Costs**

The audit disclosed no findings to be reported.

**IV. - Status of Prior-Year Findings and Questioned Costs**

**Finding 14-01 – Capital Asset Reconciliation**

**Status** – The City has begun the phase of converting the fixed asset spreadsheets into a fixed asset module.

**Finding 14-02 – Schedule of Expenditures of Federal and State Awards**

**Status** – The City properly reported the Schedule of Expenditures of Federal and State awards during the current fiscal year under audit.



**CITY OF GALVESTON, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*continued*)**

**Year Ended September 30, 2015**

**V. - Views of Responsible Officials and Planned Corrective Action**

**Finding #15-01: Fixed Asset Reporting**

**Response**

In order to increase system control for accuracy, the City is implementing the control to cure this finding in Fiscal Year 2016 and going forward. The first quarterly project status report will be distributed with the 2016 2<sup>nd</sup> Quarter Budget report in April 2016. As required by the Fiscal Year 2016 Budget ordinance, quarterly reports will be provided on all capital projects underway during the year specifically pointing toward milestones including, but not limited to, placement into service. This important piece of information is critical to city operations and not just completion of the fixed assets portion of the Comprehensive Annual Financial Report.

**Contact Person:** Tammy Jacobs, Assistant Finance Director, 409-797-3567

**Estimated Completion Date:** April 2016

CITY OF GALVESTON, TEXAS  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
*For the year ended September 30, 2015*

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>Expenditures of State Awards</b>			
<b>Texas Department of Transportation</b>			
<b>Direct</b>			
<i>Public Transportaion - State Funds</i>		51512F7021	\$ 431,192
<i>Public Transportaion - State Funds</i>		7516	181,737
<i>Routine Airport Maintenance Program</i>		M112GLVST	50,000
<i>STEP - WAVE</i>		2015-Galvesto-S-1YG-0002	192
<i>PSPG Grant</i>		EMW-2014-PU-00089	45,000
<b>Total Direct</b>			<u>708,121</u>
<b>Total Texas Department of Transportation</b>			<u><u>708,121</u></u>
<b>Texas Department of Public Safety</b>			
<b>Direct</b>			
<i>Texas Department of Public Safety</i>		15TX-EMPG-0339	<u>38,210</u>
<b>Total Texas Department of Public Safety</b>			<u><u>38,210</u></u>
<b>Texas Historical Commission</b>			
<b>Direct</b>			
<i>Certified Local Government Grant</i>		48-03-18244.032	<u>10,000</u>
<b>Total Texas Historical Commission</b>			<u><u>10,000</u></u>
<b>Texas Commission on Environmental Quality</b>			
<b>Direct</b>			
<i>H-GAC Solid Waste - Recycling Services Grant</i>		15-16-G03	<u>52,065</u>
<b>Total Texas Commission on Environmental Quality</b>			<u><u>52,065</u></u>
<b>Total Expenditures of State Awards</b>			<u><u>808,396</u></u>



## **CITY OF GALVESTON, TEXAS**

### **NOTES ON ACCOUNTING POLICIES FOR STATE AWARDS**

#### **A. Basis of Accounting**

City of Galveston, Texas accounts for awards under state programs primarily in the General and Special Revenue governmental funds.

In the Governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

State grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

#### **B. Basis of Presentation**

The accompanying schedule of expenditures of state awards (the "Schedule") includes the state grant activity of the City under programs of the state government for the year ended September 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.